Royalties and Revenue Sharing

North Carolina Offshore Energy
Exploration Subcommittee

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Minerals Management Service

Outline of Presentation

- About the Minerals Management Service
- Mineral Leases and Revenue Sharing
- Pertinent Statutes
- Offshore Renewable Energy Revenue Sharing
- Coastal Impact Assistance Program
- Gulf of Mexico Energy Security Act

Who is the Minerals Management Service (MMS)?

MMS mission includes:

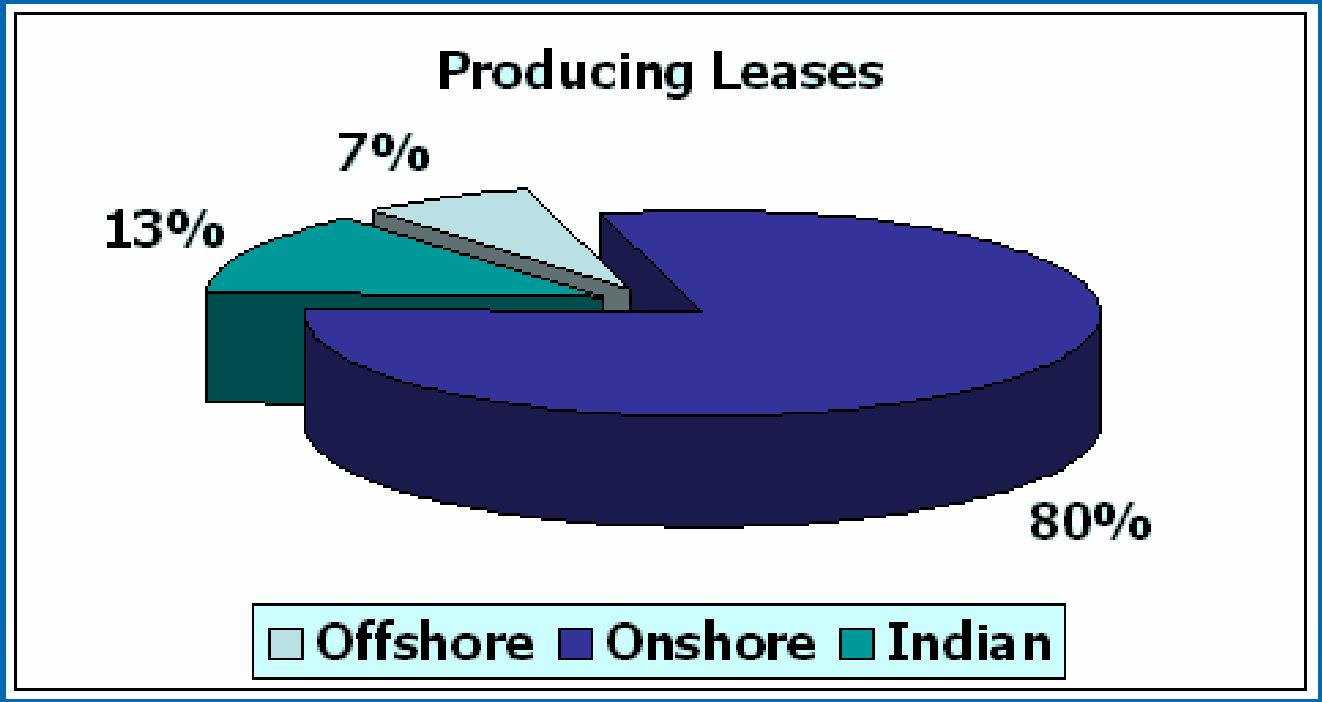
- **Management of the Federal resources on the Outer Continental Shelf (OCS)**
  - Leases lands for exploration and development
  - Regulates development activities to ensure safe operations and to protect the coastal and marine environments
  - Ensures proper abandonment of sites
- **Management of revenues from mineral leases on Federal lands and Native American lands**
  - Collects and accounts for mineral revenue payments
  - Assures compliance with revenue terms of mineral leases

Leasing Federal Lands for Mineral Development

- **A Federal Mineral Lease:**
  - Grants to the "lessee" the exclusive right to explore for and develop the leased mineral resources
  - Lessee must timely explore for and develop the lease during the primary term of the lease and pay annual rent
  - Once a discovery is made and production of the mineral resource occurs, the lessee must pay a monthly production royalty
  - Lease remains in effect until the lessee ceases production or returns the lease

Lease Administration

FY 2008



<u>29,644 Producing Leases</u>

- Offshore: 2,077*
- Onshore: 23,620**
- Indian: 3,947***

*Administered by MMS
**Administered by BLM
***Administered by BIA

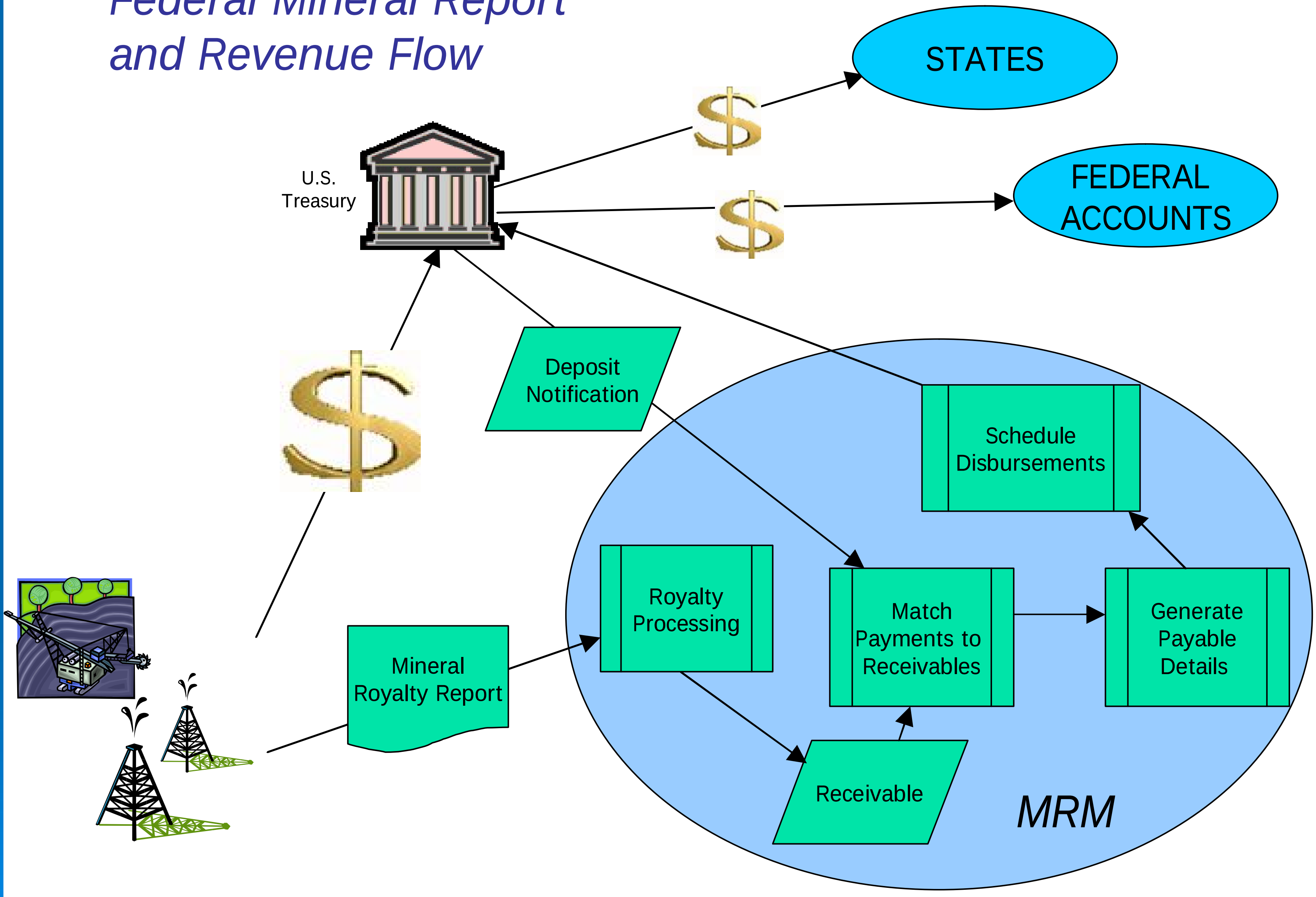
Mineral Revenue Sources

- **Bonuses**
  - **Cash consideration paid to United States by the successful bidder for a mineral lease**
- **Rent**
  - **Periodic payments made by holder of a lease, during the primary lease term, for right to use the land or resources for purposes established in the lease**
- **Royalties**
  - **Based on Landowner’s share of the value of the minerals produced and sold**
  - **Payment of a stated proportionate interest in production from mineral deposits by the lessees to the lessor**
  - **Royalty rate is set in the lease document**

Revenue Sharing

- Based on legislation
  - States pursued revenue sharing to address budget shortfalls and infrastructure needs (roads, schools, public safety)
- States
  - Use of money varies by State (schools, infrastructure, etc.)
- Transparency
  - MMS provides monthly reports to States and Indians containing details on revenue received and disbursed
  - MMS has delegated and cooperative agreements with some States and Tribes to audit mineral revenues from Federal and Indian leases

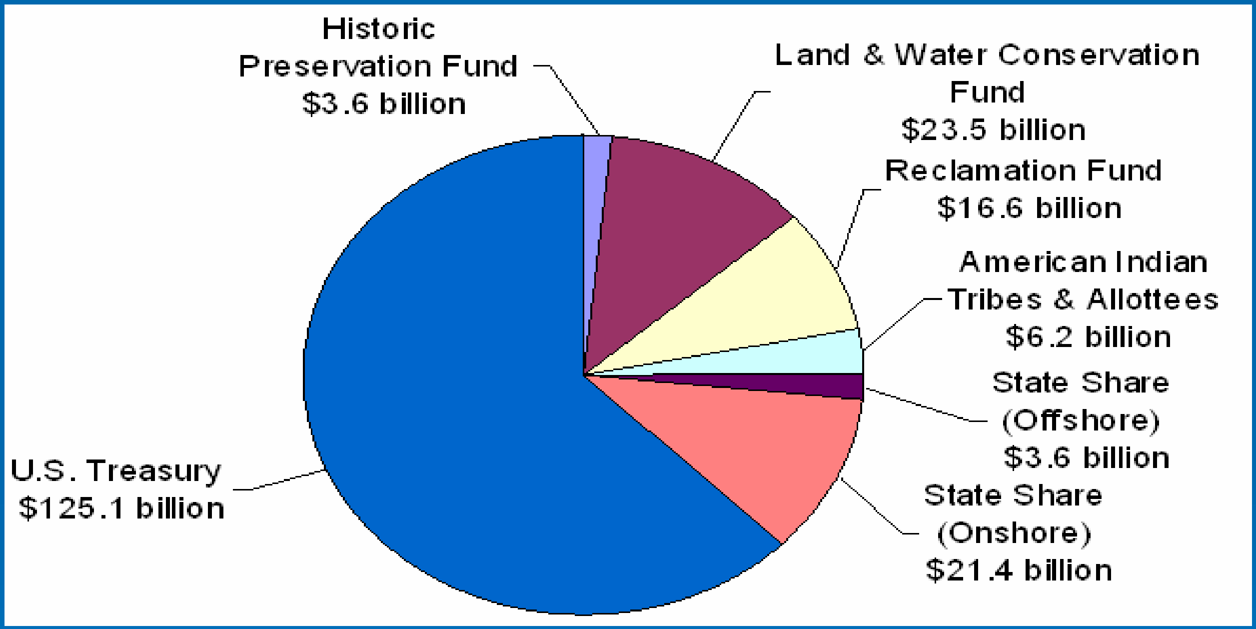
Federal Mineral Report and Revenue Flow



MMS Disbursements

- **FY 2008 Disbursements -- $23.4 Billion**
  - $ 17.3 billion to the U.S. Treasury
  - $ 897 million to the Land & Water Conservation Fund
  - $150 million to the Historic Preservation Fund
  - $ 2.0 billion to the Reclamation Fund
  - $ 2.6 billion to 35 States
  - $ 534 million to the Department's Office of the Special Trustee on behalf of 34 Indian tribes and approximately 30,000 individual Indians

Cumulative Mineral Lease Revenue Disbursement: $200.0 Billion



Note: Rounding may affect totals

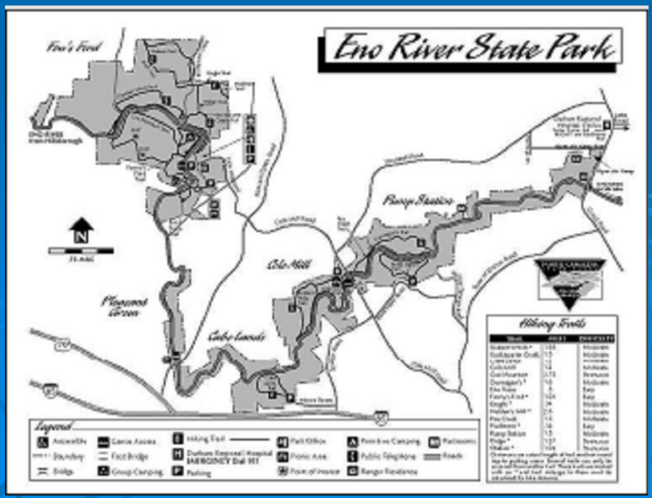
- Since 1982, MMS has distributed **$200 billion** in revenues from onshore and offshore lands to the Nation, States, and American Indians
- The MMS distribution to the U.S. Treasury is one of the Federal Government's largest sources of non-tax income

Land and Water Conservation Fund (LWCF)

- The LWCF program provides matching grants to States and local governments for the acquisition and development of public outdoor recreation areas and facilities.
- Since 1965, the LWCF has provided:
  - Over 40,000 approved grants for the acquisition, development and planning of outdoor recreation opportunities in the United States
  - Grants have supported the purchase and protection of 3 million acres of recreation lands and over 29,000 projects to develop basic recreation facilities in every State and territory of the nation

Exemplary LWCF Projects

- A six-year effort by the North Carolina Division of Parks and Recreation culminated in December 2003 with the largest single addition to Eno River State Park.
- The 805-acre property was purchased for $6.9 million, including a $1.59 million LWCF grant. In addition to the two-mile river frontage, the acquisition adds three miles of stream frontage, an extensive reach of oak-hickory forest and five miles of existing roads to enhance the park's trail system.



Pertinent Statutes

- Mineral Leasing Act of 1920
- Outer Continental Shelf Lands Act of 1953
- Federal Oil and Gas Royalty Management Act of 1982
- Federal Oil and Gas Royalty Simplification and Fairness Act of 1996
- Energy Policy Act of 2005
- Gulf of Mexico Energy Security Act of 2006

Mineral Leasing Act of 1920

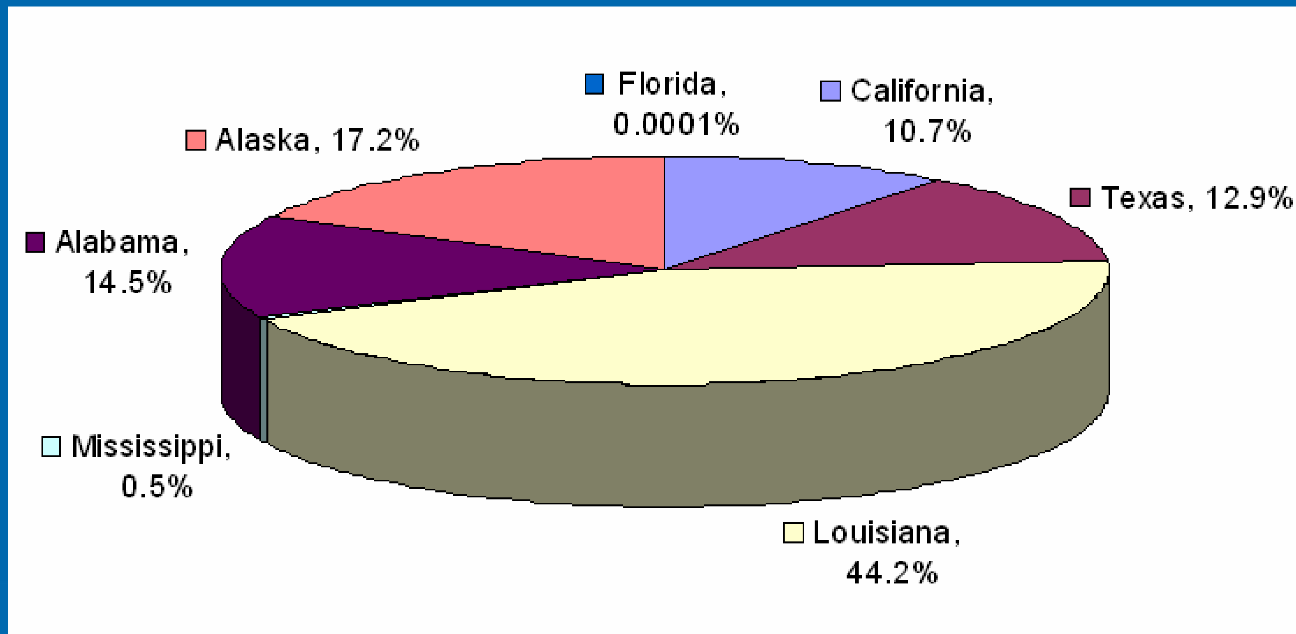
To promote the mining of coal, phosphate, oil, oil shale, gas, and sodium on the public domain.

- Onshore Federal Revenues
  - 49 % shared with State where production occurs, except Alaska (89%)
  - 40 % U.S. Treasury Reclamation Fund
  - 11 % U.S. Treasury General Fund

Outer Continental Shelf Lands Act of 1953

- *To provide for the jurisdiction of the United States over the submerged lands of the Outer Continental Shelf, and to authorize the Secretary of the Interior to lease such lands for certain purposes.*
- Revenue Disbursements:
  - Leases outside of 8g area: 100% to Treasury
  - 8g Leases: Lands within 3 miles of State seaward boundary
    - 27% to States
    - 73% to the U.S. Treasury

Federal Offshore 8(g) FY08 Disbursement



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Federal Oil and Gas Royalty Management Act of 1982

- *To ensure that all oil and gas originated on the public lands and on the Outer Continental Shelf are properly accounted for under the direction of the Secretary of the Interior.*
- Revenue provisions required MMS to:
  - Disburse monthly to States
  - Pay late disbursement interest to States
  - Charge interest for underpayments

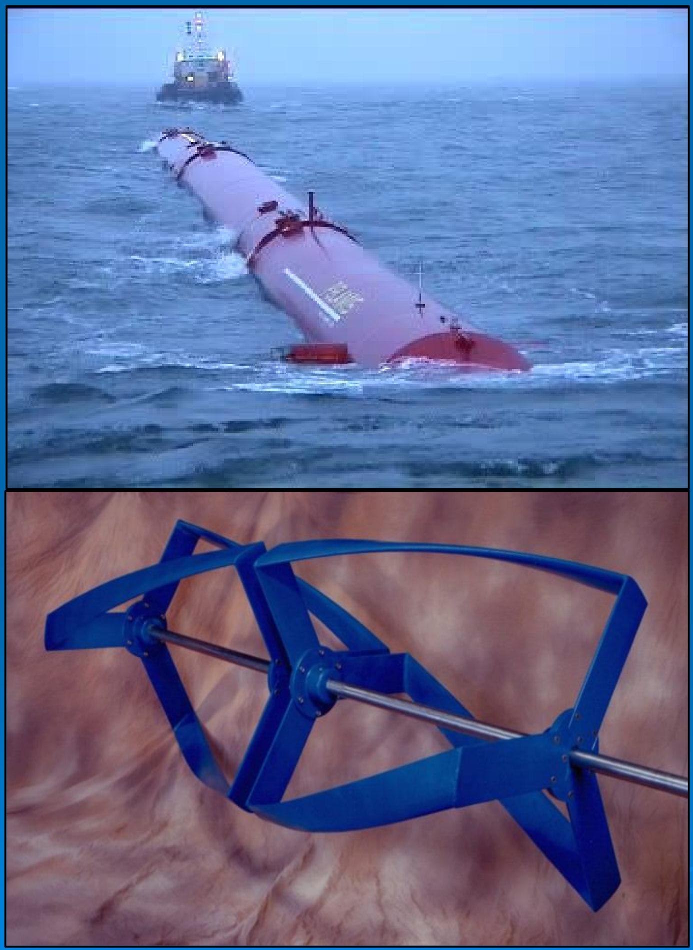
Federal Oil and Gas Royalty Simplification and Fairness Act of 1996

- *To improve the management of royalties from Federal and Outer Continental Shelf oil and gas leases.*
- Revenue provisions required MMS to:
  - Pay interest on oil and gas lessee overpayments *(current legislative proposals seek to eliminate this provision)*

Energy Policy Act of 2005

- *To ensure jobs for our future with secure, affordable, and reliable energy.*
- Key Provisions:
  - Offshore Renewable Energy Revenue Sharing
  - Coastal Impact Assistance Program
  - Geothermal Revenue Distributions to Counties

Energy Policy Act of 2005 Offshore Renewable Energy



Key Mandates

- Safety
- Protection of the environment
- Coordination with affected State & local governments and Federal agencies
- Fair return for use of OCS lands
- Equitable sharing of revenue with States

Offshore Renewable Energy

Two provisions under EPAct Section 388:

- Production, transportation, or transmission of energy from sources other than oil and gas – "*Alternative Energy*"
- Use of currently or previously OCSLA-authorized facilities for energy-related purposes or for other authorized marine-related purposes – "*Alternate Use*"

Offshore Renewable Energy Revenue Sharing

- Projects wholly or partially located within 3 nautical miles seaward of State submerged lands receive 27 percent of revenues received by the Federal Government
- Equitable distribution of shared revenue among coastal states that are within 15 miles of the geographic center of the project
- Revenues not constituting payment for the use of Federal property (e.g., forfeiture of surety bond, cost recovery fees, or civil penalties) are not sharable

Offshore Renewable Energy Revenue Sharing, cont.

- A State is eligible for payment of revenues if **ANY** part of the State's coastline is located within 15 miles of the announced geographic center of the qualified project area.
- The proportion of revenues to be shared by an eligible State depends on the distance from the geographical center of the qualified project area to the nearest point of the State's coastline. (same formula as CIAP)

Offshore Renewable Energy Revenue Sharing, cont.

- Example 1: Qualified project located within the 8(g) zone, but the geographic center of the project is more than 15 miles from the coastline of any State. **(No State sharing)**
- Example 2: Qualified project located partially within the 8(g) zone of State A. Geographic center of the project is within 15 miles of State B's coastline, but greater than 15 miles from State A's coastline. **(State B receives entire 27%)**
- Example 3: Qualified project located partially within the 8(g) zone of State C. Geographic center of the project is within 15 miles of State A and B's coastline, but greater than 15 miles from any other State including State C. **(States A and B split the 27%)**
  - The sharing between States A and B would be based on their proximity to the geographic center of the qualified project area.
  - See April 29, 2009, FR Notice (Vol. 74, No. 81) – available at www.mms.gov

Coastal Impact Assistance Program (CIAP)

- *To mitigate the impacts of Outer Continental Shelf (OCS) oil and gas activities to OCS oil and gas producing States.*
- $250 million is distributed to producing States and coastal political subdivisions for each of the fiscal years 2007 through 2010. This money is shared among Alabama, Alaska, California, Louisiana, Mississippi, and Texas. The funds must be used for projects such as:
  - The conservation, protection, or restoration of coastal areas
  - Mitigation of damage to fish, wildlife, or natural resources

CIAP State Allocation Formula

- Fiscal year 2006 Qualified Outer Continental Shelf Revenues (QOCSR)* were used to determine fiscal year 2007 and 2008 disbursements
- Fiscal year 2008 QOCSR were used to determine fiscal year 2009 and 2010 disbursements
- The amount of the total $250MM per year allocated to each producing State is based on the ratio that the amount of QOCSR generated off the coastline of the producing State bears to the amount of QOCSR generated off the coastline of all producing States
- The amount allocated to a producing State must be at least one percent of the amount available for disbursement each fiscal year.

*Includes bonus bids, rents, royalties, net profit share payments, and related late-payment interest, received by MMS and disbursed to the U.S. Treasury during FY06 and FY08. Excludes revenues from leased tracts to which section 8(g) applies

CIAP Project Examples

- On August 3, 2009, the Minerals Management Service (MMS) awarded a grant for $383,313 to the State of Texas for the development of a Texas coastline Digital Aerial Photography database and storage system.
- On August 24, 2009, MMS approved a $400,000 grant to the State of Mississippi to develop a Sustainable Development and Smart Growth Management Initiative for Mississippi coastal counties to improve natural resources conservation and management and land use decision making.
- On August 24, 2009**,** MMS approved a grant for $450,000 to the Mississippi Department of Marine Resources for a project to document and conserve the heritage resources of the Mississippi gulf coast.

CIAP Awarded Grants

(as of October 2, 2009)

Fiscal Year 2008		
State	***Total***	
LOUISIANA	$	36,917,954.47
2008 Total	**$**	**36,917,954.47**
Fiscal Year 2009		
State	***Total***	
ALABAMA	$	8,991,578.20
ALASKA	$	1,978,822.19
LOUISIANA	$	58,857,896.92
MISSISSIPPI	$	5,474,417.00
TEXAS	$	6,902,876.36
2009 Total	**$**	**82,205,590.67**
Grand Total	**$**	**119,123,545.14**

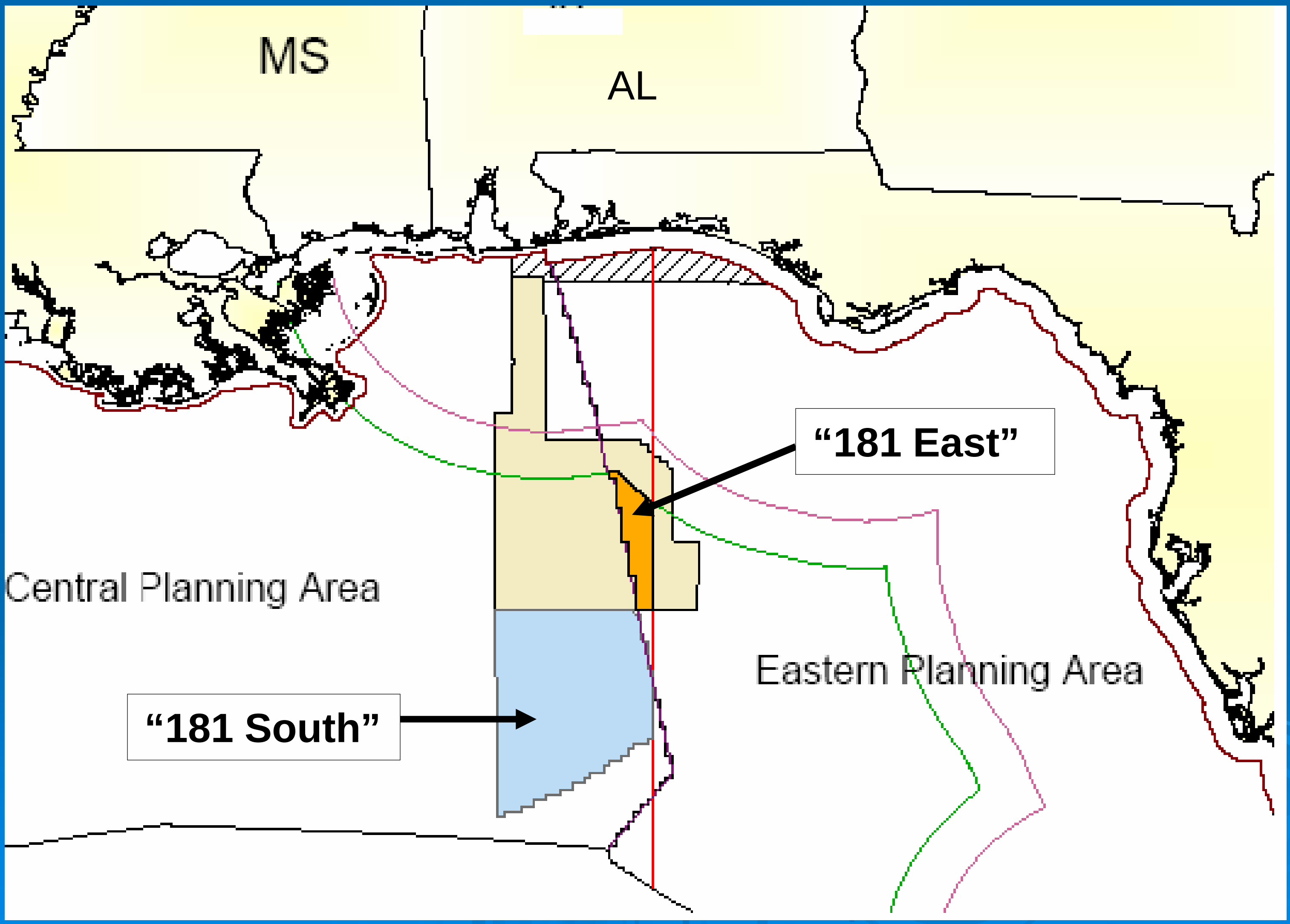
Gulf of Mexico Energy Security Act (GOMESA) of 2006

- *To enhance the energy independence and security of the United States by providing for exploration, development, and production activities for mineral resources in the Gulf of Mexico.*
- Revenue Disbursements:
  - 50% to Treasury
  - 30% to States (AL, LA, MS, TX)
  - 12.5% to Land and Water Conservation Fund
  - 7.5% to Political subdivisions (counties of States)

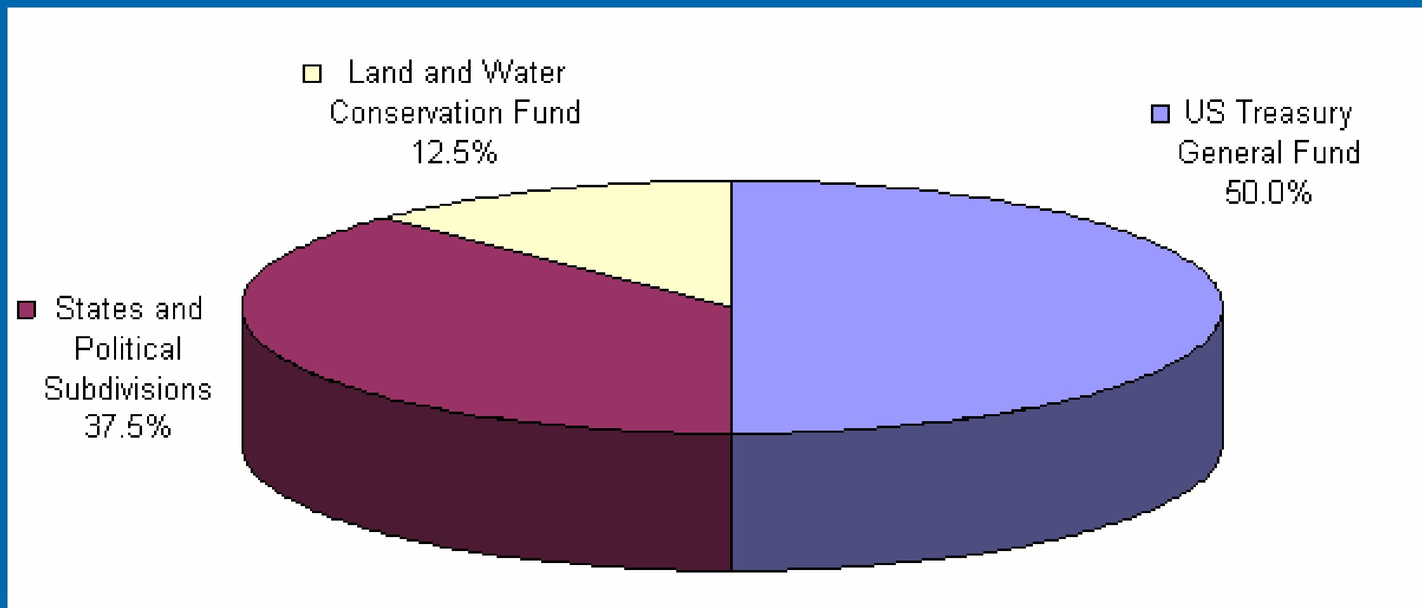
GOMESA Revenue Sharing

- GOMESA funds are to be used for coastal conservation, restoration and hurricane protection.
- There are two phases of GOMESA revenue sharing:
  - Phase I: In Fiscal Years 2007-2016, the four Gulf producing States and their coastal political subdivisions receive 37.5% of all qualified OCS revenues (bonus bids, rentals and production royalty) for leases issued in the 181 Area in the East area and the 181 South Area
  - Phase II: Beginning in Fiscal Year 2017, the four Gulf producing States and their coastal political subdivisions will receive 37.5% of OCS revenues for all leases issued after December 20, 2006

GOMESA Revenue Sharing Areas

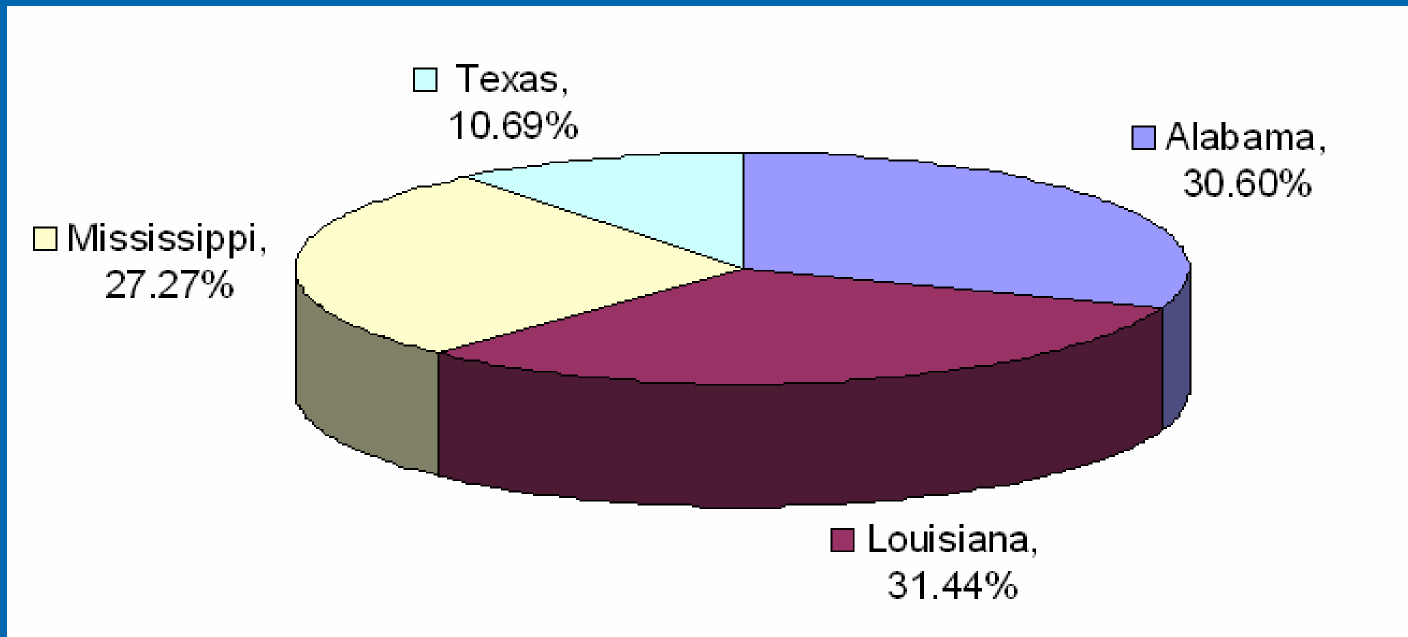


GOMESA FY08 Allocations



*Qualified Revenues = GOMESA Revenues $68,559,396.08 - Escalating Rentals $1,252,620.15

GOMESA FY08 State Allocations



Questions?